BUDGET 2007
MANAGING OUR GROWTH

Second Quarter Fiscal Update
2007-2008

November 2007

Alberta

UPDATING ALBERTANS

The *Second Quarter Fiscal Update* consists of two parts – the updated 2007-08 forecast for the entire fiscal year and the actual results for the first six months of the fiscal year (April 1 to September 30, 2007).

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2007-08 FORECAST

HIGHLIGHTS

Revenue. Forecast at $37.5 billion, a $2.2 billion increase from budget and $1.4 billion from the first quarter forecast. The increase is due mainly to higher income tax and energy revenue.

Expense. Forecast at $33.6 billion, $412 million higher than budgeted, but $121 million lower than the first quarter forecast. The increase from budget is primarily due to higher capital grants. The decrease from first quarter reflects lower agricultural support payments.

Surplus. $4 billion, an increase of $1.8 billion from budget and $1.5 billion from first quarter.

In-Year Surplus Allocations. After cash adjustments and Heritage Fund inflation-proofing, $1.9 billion is available from the increase in the second quarter surplus. This increase is allocated $1.3 billion to the Capital Account and $633 million to the Heritage Fund. This is in addition to the allocations made in the first quarter.

Total Savings Allocations. A total of $1.7 billion has been allocated to savings (includes the original budget allocation, cash from the higher 2006-07 fourth quarter results, inflation-proofing, and in-year surplus allocations). $1.3 billion has been provided to the Heritage Fund, $227 million to the Scholarship Fund, and $150 million to the Medical Research Endowment.

Total Capital Account Allocations. $2.1 billion has been added to the Capital Account through in-year allocations. Offsetting this increase are withdrawals for in-year capital spending increases and a budgeted withdrawal to support 2007-08 capital spending. The net increase in the Capital Account is $1.2 billion.

Sustainability Fund. Assets of the Sustainability Fund remain unchanged at $7.7 billion.

FISCAL SUMMARY[a]

(millions of dollars)

		2007-08			
			2nd Quarter	Change from	1st Quarter
		Budget	Forecast	Budget	
1	**Revenue**	35,332	**37,549**	2,217	1,387
2	**Expense**				
3	Operating expense	27,023	**26,970**	(53)	(77)
4	Capital grants	4,739	**5,148**	409	(17)
5	Disaster/emergency/natural gas rebates	527	**588**	61	(22)
6	Capital amortization and nominal sum disposals	625	**625**	-	-
7	Debt servicing costs	235	**230**	(5)	(5)
8	**Total Expense**[b]	33,149	**33,561**	412	(121)
9	**Surplus**	2,183	**3,988**	1,805	1,508
10	Net transfer to Sustainability Fund[c]	(1,869)	**(3,723)**	(1,854)	(1,565)
11	**Contingency Allowance**	314	**265**	(49)	(57)
12	**Surplus**	2,183	**3,988**	1,805	1,508
13	Cash requirement for Capital Investment	(1,153)	**(1,137)**	16	-
14	Other cash adjustments/requirements[d]	(1,055)	**70**	1,125	541
15	Withdrawal from Capital Account	459	**881**	422	-
16	**Available for Allocations after Cash Adjustments**	434	**3,802**	3,368	2,049
17	**Allocations**				-
18	Heritage Fund inflation-proofing	284	**496**	212	150
19	Heritage Fund (first and second quarter allocations)	-	**825**	825	633
20	Medical Research Endowment Fund (budget)	150	**150**	-	-
21	Scholarship Fund (2006-07 4th quarter allocation)	-	**227**	227	-
22	Capital Account (2006-07 4th quarter, 1st and 2nd quarter allocations)[e]	-	**2,104**	2,104	1,266
23	**Total Allocations**	434	**3,802**	3,368	2,049

a Subject to the *Fiscal Responsibility Act*. Does not include changes in equity of Crown-controlled SUCH sector organizations or in pension obligations.

b Capital Investment not included in expense: 1,964 **1,948** (16) -

c Net transfer to Sustainability Fund less transfer from Capital Account for capital grants.

d Includes retained income of funds and agencies, Contingency Allowance, cash from 2006-07 fourth quarter results and other cash adjustments.

e Net increase in the Capital Account is $1.2 billion. This represents $2.1 billion in allocations less an $881 million withdrawal.

REVENUE

NON-RENEWABLE RESOURCE REVENUE

Total non-renewable resource revenue is forecast at $11.1 billion, an increase of $792 million from the budget estimate and $555 million from the first quarter. The increase reflects higher oil prices partly offset by lower natural gas prices and a higher exchange rate.

Natural gas royalties are forecast at $5.4 billion, $600 million lower than the budget estimate and down $477 million from the first quarter forecast. Natural gas prices are forecast to average Cdn$6.00 per gigajoule (GJ), 75 cents lower than the budget estimate. Year-to-date (April to October), natural gas prices have averaged $5.64/GJ, and are expected to average $6.51/GJ for the remainder of the year.

Total **oil royalties** are forecast at $4.3 billion, $1.5 billion higher than budgeted and $981 million higher than first quarter. Oil prices are forecast to average US$80.00 per barrel, up $22 from the budget estimate. Year-to-date (April to October), oil prices have averaged US$72.41/bbl, and are expected to average US$90.62/bbl for the remainder of the year.

The appreciation of the Canadian dollar has negatively affected both oil and natural gas royalties. The Canadian dollar is forecast to average 98.7 cents US for the fiscal year, up nearly 13 cents from budget.

Revenue from **bonuses and sales of Crown leases** is forecast at $1.1 billion, $94 million lower than budgeted, but $50 million higher than the first quarter forecast. The decrease from budget is due to the lower number of hectares sold and lower prices per hectare, partly offset by an increase in oil sands land sales.

TAX REVENUE

Personal income tax revenue is forecast at $8 billion, up $721 million from the budget estimate, and $310 million higher than first quarter. Stronger-than-expected personal income growth in 2006 and 2007 accounts for the increase in the current-year forecast.

Corporate income tax revenue is forecast at $3.8 billion, a $706 million increase from the budget estimate. The increase is due to a stronger outlook for corporate profits.

Other tax revenue is forecast at $3.6 billion, virtually unchanged from the budget estimate. Volume-driven increases of $41 million in fuel and insurance taxes, and the tourism levy, are more than offset by a $45 million reduction in freehold mineral rights tax revenue.

TRANSFERS FROM GOVERNMENT OF CANADA

Transfers from the Government of Canada are forecast at $3.2 billion, $510 million lower than budgeted and down $318 million from the first quarter forecast.

Health transfers and the Canada Social Transfer are $403 million lower than budgeted due to higher 2006-07 and 2007-08 income tax revenue.

Other federal transfers are $107 million lower than budgeted. Lower transfers for agricultural support payments are partly offset by an increase for flood disaster assistance.

INVESTMENT INCOME

Investment income is forecast at $2.8 billion, up $307 million from budget and $50 million from the first quarter forecast.

Heritage Fund and endowment fund income is $179 million higher than budgeted primarily because of stronger-than-expected Canadian equity market performance and higher realized capital gains. This is partly offset by the impact of the stronger Canadian dollar on the funds' global equity market performance.

Other investment income is $128 million higher than budgeted mainly because of higher asset balances and interest rates.

OTHER REVENUE

Total other revenue is forecast at $5 billion, up $205 million from budget and $110 million from the first quarter forecast. The changes from budget include:

- $63 million increase in revenue related to the *Climate Change and Emissions Management Act*. This revenue is set aside in the Climate Change and Emissions Management Fund for use in 2008-09;
- $60 million increase in gaming revenue due to higher video lottery terminal activity;
- $60 million increase in health care insurance premiums due to higher number of registrants;
- $22 million net increase in other revenue.

REVENUE

(millions of dollars)

	2007-08				
		2nd Quarter	Change from	1st Quarter	Main Reasons for Change from Budget
	Budget	Forecast	Budget		
Income Taxes					
Personal income tax	7,318	**8,039**	721	310	Higher employment/personal income growth
Corporate income tax	3,126	**3,832**	706	706	Stronger corporate profits
	10,444	**11,871**	1,427	1,016	
Other Taxes					
School property tax	1,378	**1,378**	-	-	
Tobacco tax	890	**890**	-	-	
Fuel tax	720	**755**	35	-	Better-than-expected prior year results
Freehold mineral rights tax	333	**288**	(45)	(26)	Lower natural gas prices
Insurance taxes	244	**246**	2	-	Better-than-expected prior year results
Tourism levy	65	**69**	4	-	Higher-than-expected hotel stays
	3,630	**3,626**	(4)	(26)	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	6,023	**5,423**	(600)	(477)	Lower natural gas prices/production
Crude oil royalty	1,060	**1,486**	426	339	Higher oil price
Synthetic crude oil and bitumen royalty	1,795	**2,855**	1,060	642	Higher oil price
Coal royalty	15	**14**	(1)	(2)	Revised forecast
Bonuses and sales of Crown leases	1,214	**1,120**	(94)	50	Lower prices/fewer hectares sold
Rentals and fees	153	**154**	1	3	Revised forecast
	10,260	**11,052**	792	555	
Transfers from Government of Canada					
Health transfers	1,828	**1,461**	(367)	(166)	Higher income tax revenue
Canada Social Transfer	924	**888**	(36)	(44)	Higher 2006-07 income tax revenue
Agriculture support programs	329	**187**	(142)	(149)	Lower CAIS program requirements
Other	634	**669**	35	41	Flood disaster assistance
	3,715	**3,205**	(510)	(318)	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission:					
Gaming and lottery revenue	1,448	**1,508**	60	40	Higher activity
Liquor revenue	642	**652**	10	10	Volume increase
Alberta Treasury Branches	262	**273**	11	11	Higher interest and services income
Other	6	**6**	-	-	
	2,358	**2,439**	81	61	
Investment Income					
Alberta Heritage Savings Trust Fund	1,219	**1,363**	144	24	Canadian equities/realized capital gains
Endowment Funds:					
Medical Research	100	**117**	17	2	Canadian equities/realized capital gains
Science and Engineering Research	56	**57**	1	-	Canadian equities/realized capital gains
Scholarship	42	**59**	17	4	Canadian equities/realized capital gains
Alberta Capital Finance Authority	295	**295**	-	-	
Agriculture Financial Services Corporation	101	**98**	(3)	(7)	Lower lending activity
Sustainability Fund	275	**300**	25	5	Higher interest rates
Debt Retirement Account	81	**85**	4	-	Higher interest rates
Capital Account	210	**250**	40	10	Higher asset balance and interest rates
Other	121	**183**	62	12	Higher asset balances and interest rates
	2,500	**2,807**	307	50	
Premiums, Fees and Licences					
Health care insurance premiums	919	**979**	60	-	Increased registrants
Motor vehicle licences	332	**353**	21	5	Increase in vehicle registrations
Crop and hail insurance premiums	181	**147**	(34)	(3)	Lower participation
Timber rentals and fees	40	**31**	(9)	(9)	Pine beetle and fire damage
Land titles	70	**81**	11	9	Strong real estate market
Other	334	**340**	6	5	Land and grazing fees
	1,876	**1,931**	55	7	
Other					
Refunds of expense	100	**103**	3	-	Revised forecast
Climate Change and Emissions Management	-	**63**	63	63	Emissions management credits
Fines and penalties	95	**98**	3	2	Revised forecast
Miscellaneous	354	**354**	-	(23)	
	549	**618**	69	42	
Total Revenue	35,332	**37,549**	2,217	1,387	

EXPENSE

TOTAL EXPENSE

Total expense is $412 million higher than the budget estimate, but $121 million lower than the first quarter forecast. Changes from budget consist of:

- $409 million increase in capital grants;
- $197 million in additional disaster/emergency assistance;
- $136 million lapse in natural gas rebates;
- $53 million net decrease in operating expense. Lower agriculture support payments (including lower dedicated revenue/expense) are partly offset by increases for the new Alberta Farm Recovery Plan, salary settlements and homelessness initiatives;
- $5 million decrease in debt servicing costs.

SUSTAINABILITY FUND

Disaster/Emergency Assistance – A total of $247 million in disaster/emergency assistance is being provided: $117 million for fire-fighting costs, $50 million for flood assistance, and $80 million to fight mountain pine beetle infestations, of which $50 million was budgeted.

Natural Gas Rebates – $341 million in natural gas rebates are now expected to be paid, $136 million less than budgeted, due to lower natural gas prices.

CAPITAL ACCOUNT

Capital grants have increased by $409 million comprising $287 million for capital maintenance and renewal of schools, post-secondary and health facilities, and provincial highways, and a net $122 million mainly for affordable housing and Rural Affordable Supportive Living project cost escalation. This increase has been funded from the Capital Account.

FUNDING FROM THE CONTINGENCY ALLOWANCE

$314 million was set aside as a Contingency Allowance in *Budget 2007* for in-year, non-emergency operating spending or revenue reduction initiatives. In-year operating increases have been funded from lapses in operating spending, budgeted capital grants and a net $49 million draw from the Contingency Allowance. The Contingency Allowance is now forecast at $265 million in the second quarter.

MINISTRY EXPENSE CHANGES

Advanced Education and Technology – $145 million net increase consisting of $111 million for capital maintenance and renewal, $30 million for the University of Alberta utility system expansion, and $4 million to assist with Fort McMurray housing costs.

Agriculture and Food – $150 million net decrease. Decreases of $285 million in the AgriStability/CAIS program, a net $29 million in Crop and Hail Insurance and $4 million in reduced reinsurance costs are partly offset by a $165 million increase for the new Alberta Farm Recovery Plan and $3 million for salary settlements.

Education – $120 million net increase consisting of $97 million for capital maintenance and renewal, $10 million for French Language programs (fully offset by a federal transfer) and $13 million mainly to assist with Fort McMurray housing costs. This forecast does not include any changes in spending associated with the Memorandum of Agreement with the Alberta Teachers' Association. If the conditions of the Agreement are met, changes will be reflected in the *2007-08 Third Quarter Fiscal Update*.

Health and Wellness – $56 million net increase. $54 million is for capital maintenance and renewal and $2 million is for salary and wage settlements.

Infrastructure and Transportation – $117 million net decrease consisting of a $136 million lapse in expected natural gas rebates, $5 million in Capital for Emergent Projects funding moved to 2008-09, partly offset by a $24 million increase for capital maintenance and renewal.

Municipal Affairs and Housing – $149 million net increase, reflecting $100 million for affordable housing, $50 million for flood disaster assistance, $16 million for homelessness initiatives, $3 million for capital maintenance and renewal, partly offset by a $20 million reduction in tank site remediation expense.

Seniors and Community Supports – A $15 million net increase consisting of a $25 million increase for cost escalation on Rural Affordable Supportive Living projects and a lapse of $10 million in AISH due to lower-than-budgeted caseload growth.

Sustainable Resource Development – $152 million increase comprising $117 million in additional forest fire-fighting costs, $30 million in additional costs to fight mountain pine beetle infestations and $5 million for salary settlements.

Other Ministries – $41 million net increase, primarily in Justice, Children Services, Solicitor General and Public Security, and Employment, Immigration and Industry, for public service salary settlements and contract agency funding.

EXPENSE SUMMARY

(millions of dollars)

	2007-08			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Program Expense				
Operating expense [a]	27,023	**27,101**	78	74
Capital grants [b]	4,739	**5,148**	409	(17)
Natural gas rebates	477	**341**	(136)	(93)
Disaster/emergency assistance	50	**247**	197	71
Capital amortization and nominal sum disposals	625	**625**	-	-
Dedicated revenue/expense increases/(decreases) [c]	-	**(131)**	(131)	(151)
Total Program Expense	32,914	**33,331**	417	(116)
Debt Servicing Costs	235	**230**	(5)	(5)
Total Expense	33,149	**33,561**	412	(121)

a Of the $78 million net increase in operating expense, $49 million is funded from the Contingency Allowance and $29 million from lapsed budgeted capital grants.

b There is $438 million increase in capital grants funded from the Capital Account less $29 million in lapsed budgeted capital g rants.

c Dedicated revenue/expense changes – Agriculture and Food: $148 million reduction in federal AgriStability/CAIS program support; Education: $10.3 million increase for French Language programs; Infrastructure and Transportation: $2.4 million increase for property operations; Solicitor General and Public Security: $3.1 million increase for the Enhanced Policing Program; Tourism, Parks, Recreation and Culture: $1.4 million increase for donation.

EXPENSE BY MINISTRY

(millions of dollars)

	2007-08				
		2nd Quarter	Change from		
	Budget [a]	Forecast	Budget	1st Quarter	Main Reasons for Change from Budget
Program					
Legislative Assembly	93	**93**	-	-	
Advanced Education and Technology	3,103	**3,248**	145	4	Capital maintenance and renewal
Agriculture and Food	1,026	**876**	(150)	(145)	Lower AgriStability/CAIS expenses
Children's Services	972	**982**	10	10	Contracted agency recruitment /retention
Education	5,626	**5,746**	120	13	Capital maintenance and renewal
Employment, Immigration and Industry	853	**859**	6	6	Salary settlements
Energy	300	**303**	3	3	Salary settlements
Environment	164	**167**	3	3	Salary settlements
Executive Council	23	**24**	1	1	Salary settlements
Finance	645	**645**	-	-	
Health and Wellness	12,071	**12,127**	56	(8)	Capital maintenance and renewal
Infrastructure and Transportation	3,065	**2,948**	(117)	(96)	Lower natural gas rebates
International, Intergovernmental and Aboriginal Relations	68	**68**	-	-	
Justice	383	**392**	9	12	Salary settlements/ prosecution services
Municipal Affairs and Housing	837	**986**	149	10	Affordable housing/flood assistance
Seniors and Community Supports	1,765	**1,780**	15	(10)	Rural Affordable Supportive Living projects
Service Alberta	279	**283**	4	4	Salary settlements
Solicitor General and Public Security	512	**521**	9	9	Salary settlements
Sustainable Resource Development	354	**506**	152	66	Forest fires/mountain pine beetles
Tourism, Parks, Recreation and Culture	756	**758**	2	2	Capital maintenance and renewal/donation
Treasury Board	19	**19**	-	-	
Total Program Expense	32,914	**33,331**	417	(116)	
Debt Servicing Costs	235	**230**	(5)	(5)	Reduced borrowing
Total Expense	33,149	**33,561**	412	(121)	

a Budget numbers have been restated to reflect transfers for 'capital for emergent projects' totalling $41.3 million, and transfers for capital project planning totalling $11.5 million, from Infrastructure and Transportation to other ministries.

CAPITAL PLAN

2007-08 capital spending, including capital investment in provincial government-owned assets and capital expense for grants to local authorities and other infrastructure support, is forecast at $7.1 billion. This is $393 million higher than budgeted but $17 million lower than the first quarter forecast.

Municipal Infrastructure Support – Total allocation of $1.4 billion, $32 million lower than the budget estimate. The decrease is due to changes in the scheduling of projects, in particular tank site remediation.

Provincial Highway Network – Total allocation of $1.3 billion, $46 million less than budgeted. The decrease is primarily due to changes in the scheduling of highway construction projects.

Health Facilities and Equipment – Total allocation of $1.3 billion, $79 million higher than the budget estimate. This reflects a $53 million increase for capital maintenance and renewal and a $26 million transfer from Capital for Emergent Projects and from capital project planning funds.

Post-secondary Facilities – Total allocation of $901 million, $154 million higher than budgeted. The increase consists of $111 million for capital maintenance and renewal, $30 million for cost escalation of the University of Alberta utility system expansion and $13 million for other projects.

Schools – Total allocation of $616 million, $108 million higher than the budget estimate. The increase includes $97 million for capital maintenance and renewal and $11 million for school projects and planning.

Community Facilities – Total allocation of $455 million, an increase of $48 million from budget, reflecting $29 million for capital maintenance and renewal, $12 million to carry-over unfinished 2006-07 projects, and $7 million in other projects.

Water and Wastewater Management – Total allocation of $211 million, $2 million higher than budgeted to carry-over unfinished 2006-07 projects.

Housing, Government Facilities and Equipment, and Other Capital – Total allocation of $809 million, up a net $144 million from budget, reflecting $100 million for affordable housing, $25 million for cost escalation on Rural Affordable Supportive Living projects, $23 million for capital maintenance and renewal, $10 million to carry over 2006-07 projects, and $25 million in other projects, partly offset by a $39 million lapse.

Capital for Emergent Projects – $64 million lower than budgeted. This reflects $41 million reallocated to other areas of the Capital Plan, $30 million moved to 2008-09, and $7 million carried over from 2006-07.

CAPITAL PLAN SUMMARY

(millions of dollars)

	2007-08			
		2nd Quarter	Change from	1st
	Budget	Forecast	Budget	Quarter
Municipal infrastructure support	1,402	**1,370**	(32)	(20)
Provincial highway network	1,379	**1,333**	(46)	10
Health facilities and equipment	1,220	**1,299**	79	17
Post-secondary facilities	747	**901**	154	3
Schools	508	**616**	108	5
Community facilities	407	**455**	48	-
Water and wastewater management	209	**211**	2	-
Housing, government facilities and equipment, and other capital	665	**809**	144	13
Capital for emergent projects	166	**102**	(64)	(45)
Total Capital Plan	6,703	**7,096**	393	**(17)**
To be funded by				
Current-year revenue	2,784	**2,755**	(29)	(17)
Capital Account	3,717	**4,139**	422	-
Alternative financing including P3s	202	**202**	-	-
Total Capital Plan	6,703	**7,096**	393	**(17)**

NET FINANCIAL AND CAPITAL ASSETS

- **Net Assets** – Net assets at March 31, 2008 are forecast at $46.8 billion.
- **Heritage Fund** – The forecast book value of the Heritage Fund is $16.3 billion. This is $1.3 billion higher than its value at March 31, 2007. The increase includes $496 million for inflation proofing and an $825 million deposit from government's policy to allocate one-third of the cash available from a higher-than-budgeted surplus to savings. $192 million was allocated in the first quarter and $633 million is being allocated in the second quarter.
- **Capital Account** – Assets are forecast at $7.3 billion, a $1.2 billion increase from March 31, 2007. The increase reflects $2.1 billion in in-year allocations:
  - $455 million from higher-than-forecast 2006-07 fourth quarter results;
  - $383 million from the increase in the 2007-08 first quarter surplus;
  - $1,266 million from the increase in the 2007-08 second quarter surplus.

  Increases are offset by $881 million in withdrawals. $459 million was budgeted to support 2007-08 capital spending and $422 million is being withdrawn to support in-year increases in capital spending.
- **Endowment and Other Funds** – Assets are forecast at $3.9 billion, up $470 million from March 31, 2007. The increases primarily reflect the $150 million budgeted deposit to the Medical Research Endowment Fund, the $227 million allocation to the Scholarship Fund from the 2006-07 fourth quarter results, and a $63 million deposit into the Climate Change and Emissions Management Fund.
- **Pension Obligations** – $5.7 billion liability. This does not include the estimated $2.2 billion in teachers' unfunded liability that the government would eventually assume if the conditions of the November 15, 2007 Memorandum of Agreement with the Alberta Teachers' Association are met.
- **Alberta Treasury Branches** – ATB is currently evaluating its investments in non-bank sponsored Asset Backed Commercial Paper. No valuation adjustment is reflected in this update. An assessment is expected to be completed by November 30, 2007.

BALANCE SHEET (at March 31)

(millions of dollars)

	2007	2008			
			2nd Quarter	Change from	
	Actual	Budget[a]	Forecast	Budget	2007 Actual
Financial Assets					
Heritage Fund external investments	15,028	15,312	**16,349**	1,037	1,321
Self-supporting lending organizations	7,271	8,207	**8,111**	(96)	840
Alberta Sustainability Fund	7,653	7,653	**7,653**	-	-
Endowment and other funds[b]	3,448	3,594	**3,918**	324	470
Capital Account	6,091	5,632	**7,314**	1,682	1,223
Debt Retirement Account	2,035	1,789	**1,789**	-	(246)
Other financial assets	9,488	10,450	**9,003**	(1,447)	(485)
Total Financial Assets	51,014	52,637	**54,137**	1,500	3,123
Liabilities					
Accumulated debt	2,030	1,784	**1,784**	-	(246)
Pension obligations	5,593	5,710	**5,710**	-	117
Self-supporting lending organizations	6,661	7,498	**7,467**	(31)	806
Other liabilities	6,276	7,658	**6,094**	(1,564)	(182)
Total Liabilities	20,560	22,650	**21,055**	(1,595)	495
Net Financial Assets	30,454	29,987	**33,082**	3,095	2,628
Capital assets and inventories of supplies	12,429	13,784	**13,672**	(112)	1,243
Net Assets	42,883	43,771	**46,754**	2,983	3,871
Adjustment for pension obligations	5,593	5,710	**5,710**	-	117
Net Assets for Fiscal Policy Purposes[c]	48,476	49,481	**52,464**	2,983	3,988

a Budget numbers have been restated to reflect 2006-07 actual results.

b Includes the Medical Research Endowment Fund, Science and Engineering Research Endowment Fund, Scholarship Fund, Alberta Cancer Prevention Legacy Fund, Energy Innovation Fund and Climate Change and Emissions Management Fund.

c Under the *Fiscal Responsibility Act*. Excludes pension obligations and change in equity of Crown-controlled SUCH sector organizations.

CAPITAL ACCOUNT

(millions of dollars)

	2006-07	2007-08			
			2nd Quarter	Change from	
	Actual	Budget[a]	Forecast	Budget	2006-07 Actual
Assets at Start of Year	4,243	6,091	**6,091**	-	1,848
Allocations to Capital Account:					
Actual/Budgeted	5,048	3,258	**3,258**	-	(1,790)
From 2006-07 fourth quarter results	-	-	**455**	455	455
From forecast increase to 2007-08 surplus (1st quarter)	-	-	**383**	383	383
From forecast increase to 2007-08 surplus (2nd quarter)	-	-	**1,266**	1,266	1,266
Total Allocations	5,048	3,258	**5,362**	2,104	314
Withdrawals:					
Capital grants to local authorities	(2,508)	(2,564)	**(3,002)**	(438)	(494)
Government-owned capital investment	(692)	(1,153)	**(1,137)**	16	(445)
Total withdrawals	(3,200)	(3,717)	**(4,139)**	(422)	(939)
Assets at End of Year	6,091	5,632	**7,314**	1,682	1,223

a Budget numbers have been restated to reflect 2006-07 actual results.

NET FINANCING REQUIREMENTS

(millions of dollars)

	2007-08			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Requirements:				
General Revenue Fund term debt maturities	166	**166**	-	-
School construction loan repayments	59	**59**	-	-
Alberta Social Housing Corporation debt repayment	21	**21**	-	-
Accumulated debt financing requirements	246	**246**	-	-
Agriculture Financial Services Corporation term borrowing requirements	300	**250**	(50)	(50)
Gross financing requirements	546	**496**	(50)	(50)
Cash applied to accumulated debt repayment	(246)	**(246)**	-	-
Net Term Debt Financing Requirements	300	**250**	(50)	(50)
Term debt financing completed to date	-	**145**	145	145

2007-08 FISCAL YEAR ASSUMPTIONS AND SENSITIVITIES[a]

	Sensitivities ($ millions)				Assumptions	
	Annual Change	Revenue	Spending	Net Change	Budget	2nd Quarter Forecast
Oil Price WTI (US$/bbl) [b]	-$1.00	-139	_	-139	58.00	80.00
Natural Gas Price (Cdn$/GJ)	-10¢	-98	_	-98	6.75	6.00
Exchange Rate (US¢/Cdn$)	+1¢	-123	_	-123	86.00	98.70
Interest Rates:	+1%	-227	+5	-232		
3-month Canada treasury bills					4.05	4.10
10-year Canada bonds					4.25	4.45
Personal income ($million)	-100	-6	_	-6	149,337	156,425
Corporate profits ($million)	-100	-8	_	-8	56,525	57,270

a Sensitivities based on prices and rates forecast at budget.

b Alberta Wellhead Oil Price (Cdn$/bbl) 58.72 71.75

CAPITAL INVESTMENT AND AMORTIZATION[a]

(millions of dollars)

	2007-08 Capital Investment				2007-08 Capital Amortization			
		2nd Quarter	Change from			2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter	Budget	Forecast	Budget	1st Quarter
Legislative Assembly	2	**2**	-	-	1	**1**	-	-
Advanced Education and Technology	11	**11**	-	-	8	**8**	-	-
Agriculture and Food	15	**15**	-	-	12	**12**	-	-
Children's Services	10	**10**	-	-	3	**3**	-	-
Education	1	**1**	-	-	1	**1**	-	-
Employment, Immigration and Industry	4	**4**	-	-	3	**3**	-	-
Energy	18	**18**	-	-	16	**16**	-	-
Environment	2	**2**	-	-	21	**21**	-	-
Executive Council	-	**-**	-	-	-	**-**	-	-
Finance	6	**8**	2	-	8	**8**	-	-
Health and Wellness	74	**74**	-	-	54	**54**	-	-
Infrastructure and Transportation	1,695	**1,630**	(65)	1	337	**328**	(9)	-
International, Intergovernmental and Aboriginal Relations	-	**-**	-	-	-	**-**	-	-
Justice	4	**4**	-	-	8	**8**	-	-
Municipal Affairs and Housing	1	**1**	-	-	26	**26**	-	-
Seniors and Community Supports	1	**1**	-	-	1	**1**	-	-
Service Alberta	41	**41**	-	-	40	**40**	-	-
Solicitor General and Public Security	24	**33**	9	-	1	**1**	-	-
Sustainable Resource Development	32	**33**	1	-	12	**12**	-	-
Tourism, Parks, Recreation and Culture	23	**60**	37	(1)	14	**14**	-	-
Treasury Board	-	**-**	-	-	-	**-**	-	-
Total Capital Investment/Amortization	1,964	**1,948**	(16)	-	566	**557**	(9)	-
Funded from the Capital Account	1,153	**1,137**	(16)	-	-	**-**	-	-
Alternatively financed	202	**202**	-	-	-	**-**	-	-

a Capital Investment includes purchases of inventory. Capital Amortization includes consumption of inventories.

CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT[a]

(millions of dollars)

	2007-08			
		2nd Quarter	Change from	
	Budget[b]	Forecast	Budget	1st Quarter
Advanced Education and Technology	754	**895**	141	-
Agriculture and Food	30	**30**	-	-
Education	514	**612**	98	-
Employment, Immigration and Industry	8	**8**	-	-
Energy	2	**2**	-	-
Environment	1	**1**	-	-
Finance	4	**6**	2	2
Health and Wellness	1,171	**1,225**	54	-
Infrastructure and Transportation	1,456	**1,461**	5	(5)
Justice	1	**1**	-	-
Municipal Affairs and Housing	456	**539**	83	(15)
Seniors and Community Supports	30	**55**	25	-
Solicitor General and Public Security	6	**6**	-	-
Sustainable Resource Development	1	**1**	-	-
Tourism, Parks, Recreation and Culture	305	**306**	1	1
Total	4,739	**5,148**	409	(17)
Funded from the Capital Account	2,564	**3,002**	438	-

a Included in program expense. Includes provincial highway rehabilitation, project planning and other capital expense.

b Budget numbers have been restated to reflect transfers for 'capital for emergent projects' totalling $41.3 million, and transfers for capital project planning totalling $11.5 million, from Infrastructure and Transportation to other ministries.

ALBERTA SUSTAINABILITY FUND

(millions of dollars)

	2007-08			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Assets at Start of Year	7,653	**7,653**	-	-
Transfers to (withdrawals from) the Sustainability Fund				
Non-renewable resource revenue above $5.3 billion	4,960	**5,752**	792	555
Other net transfers	-			
Increase in other revenue	-	**1,425**	1,425	832
Change in dedicated revenue/expense	-	**131**	131	151
Decrease (increase) in debt servicing costs	-	**5**	5	5
Withdrawals for disaster/emergency/natural gas rebates				
Disaster/emergency assistance	(50)	**(247)**	(197)	(71)
Natural gas rebates	(477)	**(341)**	136	93
Cash transfered to Capital Account for current-year capital grants	(2,564)	**(3,002)**	(438)	-
Net transfer to Sustainability Fund	1,869	**3,723**	1,854	1,565
Adjustments				
Capital Investment cash requirements	(1,153)	**(1,137)**	16	-
Retained income of funds and agencies [a]	(365)	**(399)**	(34)	(54)
Cash adjustments				
Energy royalties	(313)	**141**	454	572
Other	(63)	**(89)**	(26)	(34)
Cash transferred from 2006-07 fourth quarter results [b]	-	**682**	682	-
Withdrawal from Capital Account	459	**881**	422	-
Total adjustments	(1,435)	**79**	1,514	484
Assets Prior to Allocations	8,087	**11,455**	3,368	2,049
Allocations to:				
Heritage Fund - inflation-proofing	(284)	**(496)**	(212)	(150)
Heritage Fund allocations (1st and 2nd quarter surplus)	-	**(825)**	(825)	(633)
Medical Research Endowment Fund (budget)	(150)	**(150)**	-	-
Scholarship Fund (2006-07 fourth quarter allocation)	-	**(227)**	(227)	-
Capital Account (2006-07 4th quarter, 1st and 2nd quarter allocations)	-	**(2,104)**	(2,104)	(1,266)
Assets at End of Year	7,653	**7,653**	-	-
Assets at end of year above $2.5 billion	5,153	**5,153**	-	-

a Includes retained income of Alberta Treasury Branches, Agriculture Financial Services Corporation, Climate Change and Emissions Management Fund and endowment funds.

b The cash from the higher-than-forecast 2006-07 fourth quarter results was transferred into the Sustainability Fund in 2007-08.

ACTUAL RESULTS

FOR THE FIRST SIX MONTHS OF 2007–08

METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2007*.

The results of all government departments, funds and agencies, except those designated as commercial enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and provincial agencies designated as commercial enterprises are consolidated on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles applicable to those entities.

The accounts of Crown-controlled SUCH sector organizations such as school boards, universities, colleges, technical institutes and regional health authorities that are controlled by the government are not included in this fiscal summary. These Crown-controlled entities are included in the consolidated financial statements forming part of the Government of Alberta Annual Report.

BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including gains and losses from sale of capital assets), expense (including amortization of capital assets), and net revenue.

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue. Revenue excludes the change in equity in Crown-controlled SUCH sector organizations.

Expense includes the province's cash payments towards the unfunded pension obligations. Expense excludes the change in the unfunded pension obligations.

Debt servicing costs include interest payable and amortization of discount on debt issues.

Comparative 2006-07 figures have been restated where necessary to conform to the 2007-08 presentation.

CONSOLIDATED FISCAL SUMMARY[a]

for the six months ended September 30, 2007

(millions of dollars)

	First Six Months		
	2007-08	2006-07	Change
Revenue			
Income taxes	5,772	5,175	597
Other taxes	1,802	1,695	107
Non-renewable resource revenue	5,156	6,928	(1,772)
Transfers from Government of Canada	1,520	1,714	(194)
Net income from commercial operations	1,332	1,240	92
Premiums, fees and licences	1,069	1,008	61
Investment income	1,766	1,076	690
Other	274	227	47
Total Revenue	18,691	19,063	(372)
Expense			
Program	14,563	13,625	938
Debt servicing costs	104	106	(2)
Total Expense	14,667	13,731	936
Net Revenue	4,024	5,332	(1,308)

a Includes the province's cash payments towards the unfunded pension liability. Does not include the change in equity in Crown-controlled SUCH sector organizations or the change in the unfunded pension obligations.

EXPENSE

for the six months ended September 30, 2007

(millions of dollars)

	First Six Months		
	2007-08	2006-07	Change
Program			
Legislative Assembly	39	35	4
Advanced Education and Technology	1,711	1,127	584
Agriculture and Food	273	636	(363)
Children's Services	468	426	42
Education	2,539	2,507	32
Employment, Immigration and Industry	395	359	36
Energy	101	93	8
Environment	68	61	7
Executive Council	11	10	1
Finance	308	278	30
Health and Wellness	5,113	4,928	185
Infrastructure and Transportation	1,355	1,204	151
International, Intergovernmental and Aboriginal Relations	24	35	(11)
Justice	189	169	20
Municipal Affairs and Housing	239	151	88
Seniors and Community Supports	816	756	60
Service Alberta	112	114	(2)
Solicitor General and Public Security	249	231	18
Sustainable Resource Development	294	290	4
Tourism, Parks, Recreation and Culture	254	212	42
Treasury Board	5	3	2
Total Program Expense	14,563	13,625	938
Debt servicing costs	104	106	(2)
Total Expense	14,667	13,731	936

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